

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Leighton Twp Green Lake Sewer Authority Co	County ALLEGAN
Audit Date 3/31/04	Opinion Date 7/11/04	Date Accountant Report Submitted to State: 9/14/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		ZIP 49002-5599	
Accountant Signature 			Date 9/14/04

***Leighton Township Green Lake Sewer Commission
Allegan County, Michigan***

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Years ended March 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
Leighton Township Green Lake
Sewer Commission**

We have audited the accompanying financial statements of Leighton Township Green Lake Sewer Commission, a component unit of the Township of Leighton, Michigan, as of March 31, 2004 and 2003, and for the years then ended. These financial statements are the responsibility of the Leighton Township Green Lake Sewer Commission management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leighton Township Green Lake Sewer Commission as of March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Siegfried Crandall P.C.

July 11, 2004

FINANCIAL STATEMENTS

Leighton Township Green Lake Sewer Commission**BALANCE SHEET***March 31, 2004 and 2003*

	ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:			
Cash		\$ 462,970	\$ 368,090
Receivables:			
Special assessments - current portion		50,000	50,000
Other		<u>4,613</u>	<u>1,265</u>
Total current assets		<u>517,583</u>	<u>419,355</u>
FIXED ASSETS:			
Land		138,782	138,782
Water and sewer systems		3,837,472	3,837,472
Machinery and equipment		25,077	25,077
Irrigation system		<u>16,560</u>	<u>16,560</u>
		4,017,891	4,017,891
Less accumulated depreciation		<u>1,572,647</u>	<u>1,473,788</u>
Net fixed assets		<u>2,445,244</u>	<u>2,544,103</u>
OTHER ASSETS:			
Special assessments receivable (net of current portion)		<u>350,000</u>	<u>400,000</u>
TOTAL ASSETS		<u>\$ 3,312,827</u>	<u>\$ 3,363,458</u>

Leighton Township Green Lake Sewer Commission**BALANCE SHEET***March 31, 2004 and 2003*

LIABILITIES AND FUND EQUITY			
		<u>2004</u>	<u>2003</u>
LONG-TERM DEBT (less current portion and unamortized discount)		<u>\$ 490,400</u>	<u>\$ 539,200</u>
FUND EQUITY:			
Contributed capital:			
Capital grants		1,290,248	1,341,628
Customers		<u>949,750</u>	<u>949,750</u>
Total contributed capital		2,239,998	2,291,378
Retained earnings - unreserved		<u>582,429</u>	<u>532,880</u>
Total fund equity		<u>2,822,427</u>	<u>2,824,258</u>
 TOTAL LIABILITIES AND FUND EQUITY		<u><u>\$ 3,312,827</u></u>	<u><u>\$ 3,363,458</u></u>

See notes to financial statements

Leighton Township Green Lake Sewer Commission**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS***Years ended March 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES:		
Sewer usage charges	<u>\$ 93,758</u>	<u>\$ 86,216</u>
OPERATING EXPENSES:		
Administrative fees	4,900	4,900
Repairs and maintenance	6,555	5,208
Professional fees	1,875	52,097
Contract services	35,089	33,547
Insurance	2,343	2,033
Utilities and telephone	5,795	5,173
Depreciation	98,859	91,508
Meeting fees	1,300	325
Printing and postage	251	2,756
Miscellaneous	<u>3,148</u>	<u>1,505</u>
Total operating expenses	<u>160,115</u>	<u>199,052</u>
OPERATING LOSS	<u>(66,357)</u>	<u>(112,836)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest revenues:		
Special assessments	20,700	17,250
Other	9,389	15,093
Hook-up fees	58,800	51,150
Customer assessments	-	500,000
Interest expense and fiscal charges	<u>(24,363)</u>	<u>(26,162)</u>
Total nonoperating revenues (expenses)	<u>64,526</u>	<u>557,331</u>
NET INCOME (LOSS)	(1,831)	444,495
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital	<u>51,380</u>	<u>51,380</u>
INCREASE IN RETAINED EARNINGS	49,549	495,875
RETAINED EARNINGS - BEGINNING OF YEAR	<u>532,880</u>	<u>37,005</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 582,429</u>	<u>\$ 532,880</u>

See notes to financial statements

Leighton Township Green Lake Sewer Commission**STATEMENT OF CASH FLOWS***Years ended March 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 93,450	\$ 87,479
Cash payments to suppliers for goods and services	<u>(61,256)</u>	<u>(107,544)</u>
Net cash provided by (used in) operating activities	<u>32,194</u>	<u>(20,065)</u>
Cash flows from capital and related financing activities:		
Proceeds from revenue bonds	-	588,000
Hook-up fees	58,800	51,150
Assessment collections	50,000	50,000
Interest on special assessments	20,700	17,250
Acquisition of fixed assets	-	(588,073)
Interest paid on bonds	(23,163)	(24,962)
Principal paid on bonds	<u>(50,000)</u>	<u>(50,000)</u>
Net cash provided by capital and related financing activities	<u>56,337</u>	<u>43,365</u>
Cash flows from investing activities:		
Interest income received	<u>6,349</u>	<u>15,093</u>
Net increase in cash	94,880	38,393
Cash - beginning of year	<u>368,090</u>	<u>329,697</u>
Cash - end of year	<u>\$ 462,970</u>	<u>\$ 368,090</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating loss	\$ (66,357)	\$ (135,143)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	98,859	83,912
Decrease in receivables	<u>(308)</u>	<u>(2,528)</u>
Net cash provided by (used in) operating activities	<u>\$ 32,194</u>	<u>\$ (53,759)</u>

See notes to financial statements

Leighton Township Green Lake Sewer Commission
STATEMENT OF CHANGES IN CONTRIBUTED CAPITAL
Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Capital grants:		
Balance - beginning and end of year	<u>\$ 2,338,003</u>	<u>\$ 2,338,003</u>
Accumulated amortization:		
Balance beginning of year	996,375	944,995
Current year amortization	<u>51,380</u>	<u>51,380</u>
Balance - end of year	<u>1,047,755</u>	<u>996,375</u>
Net capital grants - end of year	<u>\$ 1,290,248</u>	<u>\$ 1,341,628</u>
Customers balance - beginning and end of year	<u>\$ 949,750</u>	<u>\$ 949,750</u>

See notes to financial statements

Leighton Township Green Lake Sewer Commission
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Leighton Township Green Lake Sewer Commission (the Commission) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant policies:

a) Reporting entity:

These financial statements include only the operations of the Commission, which has been established for the purpose of constructing and providing a sewage disposal system for specific benefited properties within Leighton Township, Michigan.

In accordance with generally accepted accounting principles and Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Commission (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Commission exercises oversight responsibility.

Leighton Township has determined that the Commission meets the criteria for a component unit.

b) Basis of accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The Commission uses the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred. All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The Commission has elected to follow (1) all GASB pronouncements and (2) Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

c) Fixed assets and depreciation:

Fixed assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets and is charged as an expense against operations. Routine maintenance and repairs are charged to earnings as incurred.

The estimated useful lives are as follows:

Buildings and improvements	40 years
Equipment	10 years

d) Amortization of contributed capital:

External contributions of capital relating to the acquisitions of fixed assets are being amortized over periods equal to the lives of the assets acquired with such contributions of capital.

Leighton Township Green Lake Sewer Commission
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e) Reclassifications:

Certain items presented in the 2003 financial statements have been reclassified to conform to 2004 classifications.

NOTE 2 - DEPOSITS:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Commission. Michigan Compiled Laws, Section 129.91, authorizes the Commission to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Commission's deposits are in accordance with statutory authority. At March 31, 2004, the Commission has deposits with a carrying amount of \$462,970 and a bank balance of \$468,720. Of the bank balance, \$300,000 is covered by federal depository insurance and \$168,720 is uninsured.

NOTE 3 - FIXED ASSETS:

A summary of the Commission's fixed assets at March 31, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 138,782	\$ 138,782
Water and sewage systems	3,837,472	3,837,472
Machinery and equipment	25,077	25,077
Irrigation system	<u>16,560</u>	<u>16,560</u>
Total cost	4,017,891	4,017,981
Less accumulated depreciation	<u>1,572,647</u>	<u>1,473,788</u>
Net book value	<u>\$2,445,244</u>	<u>\$2,544,103</u>

NOTE 5 - LONG-TERM DEBT:

Long-term debt is comprised of \$600,000 2002 Sewer Disposal System revenue bonds; payable in annual installments of \$50,000, plus interest at 3.60%; with a final payment due April 2012. The amount shown as outstanding at March 31, 2004 and 2003, is net of unamortized bond discount of \$9,600 and \$10,800, respectively.

Leighton Township Green Lake Sewer Commission
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM DEBT (Continued):

A summary of long-term debt transactions of the Commission for the year ended March 31, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Balance - April 1	\$550,000	\$ -
Issuance	-	600,000
Retirements	<u>(50,000)</u>	<u>(50,000)</u>
Balance - March 31	<u>\$500,000</u>	<u>\$550,000</u>

The annual requirements to amortize all debt outstanding at March 31, 2004, including interest of \$112,586, are as follows:

2005	\$ 10,544
2006	75,098
2007	73,063
2008	75,818
2009	73,373
Thereafter	<u>295,090</u>
	<u>\$602,986</u>

NOTE 4 - RISK MANAGEMENT:

The Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Commission has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY DATA

Leighton Township Green Lake Sewer Commission
SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS
\$600,000 2002 SEWAGE DISPOSAL REVENUE BONDS
March 31, 2004

<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>April 1</i>	<i>October 1</i>			
2005	3.60%	-	10,544	04/01/04	-	10,544
2006	3.60%	10,544	9,554	04/01/05	55,000	75,098
2007	3.80%	9,554	8,509	04/01/06	55,000	73,063
2008	4.00%	8,509	7,309	04/01/07	60,000	75,818
2009	4.15%	7,309	6,064	04/01/08	60,000	73,373
2010	4.30%	6,064	4,666	04/01/09	65,000	75,730
2011	4.45%	4,666	3,220	04/01/10	65,000	72,886
2012	4.55%	3,220	1,627	04/01/11	70,000	74,847
2013	4.65%	1,627	-	04/01/12	70,000	71,627
		<u>\$ 51,493</u>	<u>\$ 51,493</u>		<u>\$ 500,000</u>	<u>\$ 602,986</u>

**Members of the Commission Board
Leighton Township Green Lake Sewer Commission**

In planning and performing our audit of the general purpose financial statements of the Leighton Township Green Lake Sewer Commission for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the following condition is a material weakness.

Segregation of duties:

The Commission has assigned multiple accounting and recordkeeping responsibilities to one individual, who also has custody of the Commission's bank accounts and deposits. The concentration duties within one position creates the risk that errors or irregularities can occur without timely detection.

This report is intended for the information of the Commission, management, and the Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

August 6, 2004